

Message Text

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ACTION EUR-12

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FM AMEMBASSY PARIS

TO SECSTATE WASHDC 3836

INFO AMCONSUL BORDEAUX

AMCONSUL LYON

AMCONSUL MARSEILLE

AMCONSUL NICE

AMCONSUL STRASBOURG

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PASS TREASURY AND FEDERAL RESERVE

E.O. 11652: N/A

TAGS: EFIN, EGEN, FR

SUBJECT: FRENCH FINANCIAL AND ECONOMIC DEVELOPMENTS

REF: PARIS 24813, OCTOBER 21, 1974

1. SUMMARY. GOF CONTINUES TO VOICE RELATIVELY
OPTIMISTIC LINE ON ECONOMY. FINANCE MINISTER FOURCADE
SEES ANTI-INFLATION CAMPAIGN YIELDING EXPECTED
RESULTS NEXT YEAR WITH REAL GROWTH AT ABOUT 4.2 PER-
CENT. WHILE GOF ADHERING TO TOUGH LINE ON PRICES
AND CREDIT, HOWEVER, WORSENING EMPLOYMENT PICTURE AND
LABOR STRIFE, PLUS GROWING PUBLIC SKEPTICISM, MAKE
CONTINUATION OF RESTRICTIVE POLICIES INCREASINGLY
DIFFICULT. SURVEY OF BUSINESS OPINION CONFIRMS ALREADY
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EVIDENT COOLING-OFF IN FRENCH INDUSTRY, BUT WITH

TROUBLING NEWS THAT SLOWDOWN SPREADING TO CAPITAL EQUIPMENT - UNTIL NOW THE MOST BUOYANT OF SECTORS. END SUMMARY.

2. FOURCADE MAINTAINS OPTIMISM ON ECONOMY -

SPEAKING BEFORE THE NATIONAL ASSEMBLY OCTOBER 22, FINANCE MINISTER FOURCADE SAID OBJECTIVES OF GOF "COOLING-OFF" PLAN FOR THE ECONOMY WILL BE ACHIEVED IN 1975 AS SCHEDULED AND NOTED EMERGENCE OF WHAT HE TERMED FIRST SIGNS OF IMPROVEMENT: A SLOWDOWN IN GROWTH OF INDUSTRIAL PRODUCTION (WITH "UNFORTUNATE BUT INEVITABLE" EFFECTS ON EMPLOYMENT), SOME SLACKENING IN PRICE INFLATION AND IMPROVING FOREIGN TRADE BALANCE. STRESSING NEED FOR "TIME AND CONTINUITY," FOURCADE INSISTED BATTLE AGAINST INFLATION COULD BE WON WITHOUT SERIOUS HARM TO FRENCH GROWTH RATE, BUT THAT IT WOULD NECESSITATE PUTTING DAMPER ON "UNRESTRAINED" (WAGE) DEMANDS AND (LABOR) STRIFE.

FOURCADE THUS MAINTAINING RELATIVELY OPTIMISTIC GOF VIEW OF ECONOMY AT A TIME OF RISING UNEMPLOYMENT (RATE JUMPED TO ROUGHLY 2.6 PERCENT IN SEPTEMBER, AS REPORTED PARIS 25131), DECELERATING BUT STILL-RISING CONSUMER PRICES, AND STRIKES AND STOPPAGES IN PUBLIC SECTOR (SEE BELOW). SUCH OFFICIAL OPTIMISM APPARENTLY NOT SHARED BY MAJORITY OF FRENCHMEN: POLL CONDUCTED BY OPPOSITION-ORIENTED "NOUVEL OBSERVATEUR" MAGAZINE, 81 PERCENT OF THOSE SURVEYED SAID CURRENT ECONOMIC DIFFICULTIES IN FRANCE WOULD PROBABLY LAST "A VERY LONG TIME".

TO SET ECONOMY ARIGHT IN 1975, FOURCADE SAID GOF WOULD PURSUE "INDISPENSABLE MEASURES" IN INTERNATIONAL MONETARY POLICY (INCLUDING PREVIOUSLY-REPORTED 51 BILLION FRANC CEILING ON OIL IMPORTS AND "ACTIVE FRENCH PARTICIPATION" IN RECYCLING EFFORTS), PRICE-CONTROL POLICY (WHICH WILL CONTINUE) AND CREDIT RESTRICTIONS (WHICH MAY BE EASED IN EARLY 1975 "IF THE EMPLOYMENT SITUATION REQUIRES."). ACCORDING TO UNCLASSIFIED

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FOURCADE, FRENCH REAL GROWTH IN 1975 SHOULD BE AROUND 4.2 PERCENT - THE LOWEST FRANCE HAS KNOWN IN 15 YEARS BUT STILL ABOVE THAT PREVAILING IN MOST OTHER INDUSTRIALIZED COUNTRIES.

FOURCADE ALSO ANNOUNCED THAT BASE RATE OF INTEREST ON PASSBOOK SAVINGS WOULD BE RAISED JANUARY 1 FROM 6.5 TO 7.5 PERCENT; TAKING INTO ACCOUNT ROUGHLY 1 PER-

CENT "LONGEVITY" PREMIUM, EFFECTIVE RATE ON SAVINGS
WILL THUS BE ABOUT 8.5 PERCENT. FOURCADE SAID MEASURE
BEING TAKEN TO "STABILIZE" HOUSEHOLD SAVINGS WHICH,
THOUGH GROWING SUBSTANTIALLY, REMAIN TOO LIQUID FOR
GOF'S COMFORT. HIGHER RATE ON SAVINGS, HOWEVER,
MUST BE COMPARED WITH RATES OF CLOSE TO 11.5 PERCENT
ON RECENT PUBLIC-SECTOR BOND ISSUES.

3. SURVEY SHOWS OUTPUT, PRICE RISES LEVELLING OFF -

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BUSINESSMEN SURVEYED BY INSEE (NATIONAL STATIS-
TICS INSTITUTE) IN OCTOBER CONFIRMED BEGINNING OF
COOLING-OFF IN FRENCH INDUSTRY, WITH PRODUCTION FLATTEN-

ING OUT (AFTER HAVING RISEN FAIRLY STEADILY SINCE FIRST OF YEAR) AND INCREASES IN FACTOR COSTS BEGINNING TO DECELERATE. ACCORDING TO SURVEY, SLOWDOWN MANIFESTED EARLIER IN CONSUMER AND INTERMEDIATE GOODS SECTORS HAS NOW SPREAD TO CAPITAL EQUIPMENT, FOR WHICH DOMESTIC DEMAND SAID TO BE SLACKENING.

OVER PAST THREE MONTHS UNFILLED ORDERS DECLINED, RETURNING TO MORE NORMAL LEVELS FOLLOWING WHAT INSEE DESCRIBES AS ABNORMALLY HIGH LEVELS LAST SPRING. HOWEVER, SUCH DECLINE AT TIME WHEN OUTPUT IS LEVELLING UNCLASSIFIED

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OFF SEEMS TO INDICATE ABSOLUTE DROP IN FLOW OF NEW ORDERS. OVERALL FOREIGN DEMAND SAID TO BE WEAKENING, ALTHOUGH REMAINING ABOVE NORMAL LEVELS. INVENTORIES INCREASED DURING OCTOBER TO RELATIVELY HIGH LEVEL, BUT AUTUMN SURVEY OF INDUSTRIAL INVENTORIES BY PARIS CHAMBER OF COMMERCE SHOWS TENDENCY TOWARD OVERALL STOCK INCREASES NOW LOSING MOMENTUM.

SUCH DEVELOPMENTS LED SURVEY RESPONDANTS TO FORESEE REDUCTION IN THEIR OUTPUT, ALTHOUGH STRENGTH OF PRODUCTION AND ORDERS ON HAND EARLIER THIS YEAR HAS BEEN SUCH THAT PRESENT SITUATION REMAINS NEAR NORMAL. ACCORDING TO INSEE, INDUSTRIALISTS' OUTLOOK ON PRICES MORE CAUTIOUS THAN IT HAS BEEN IN A YEAR, CORRESPONDING TO RATE OF INCREASES APPROACHING AVERAGE FOR 1969-72 PERIOD.

4. WORK STOPPAGES PLAGUE PUBLIC SECTOR -

AS A COUNTRY IN WHICH SEVERAL KEY ECONOMIC SECTORS NATIONALIZED, FRANCE IN RECENT WEEKS HAS PROVEN ESPECIALLY VULNERABLE TO PUBLIC-SECTOR STRIKES AND WORK STOPPAGES. POSTAL STRIKE (SEE PARIS 25540) HAS PARTICULARLY HURT SMALLER BUSINESSES BY HOLDING UP PAYMENTS FROM CUSTOMERS AS WELL AS NEW ORDERS. RADIO AND TV BROADCASTING SYSTEM (ORTF) HAS EXPERIENCED OFF-AND-ON STRIKES OVER PAST TWO WEEKS. SOME 22,500 COAL MINERS IN LORRAINE STOPPED WORK OCTOBER 30 AND MAY BE JOINED BY OTHERS IN NATIONALIZED COAL INDUSTRY ANGRY OVER PIT CLOSINGS IN MIDST OF ENERGY CRISIS. GAS AND ELECTRICITY WORKERS SCHEDULED HALF-DAY STRIKE FOR NOVEMBER 4, PROMISING POWER CUTS AND REDUCTIONS.

WHILE UNDERLYING THEME OF SUCH DEMONSTRATIONS IS FEAR OF HIGH INFLATION AND RISING UNEMPLOYMENT, SMALL BUSINESSMEN AND SHOPKEEPERS THREATENING TO SHUT DOWN NOVEMBER 25 IF THEIR DEMANDS FOR RELAXED

CREDIT RESTRICTIONS NOT MET. ASSOCIATION OF SMALL
AND MEDIUM FIRMS (PETITES ET MOYENNES ENTERPRISES)
CLAIMS GOF CREDIT SQUEEZE AND PROPOSED "ANTI-INFLATION
LEVY" (SEE PARIS 25778) THREATEN SMALLER FIRMS' SURVIVAL
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SINCE THEY ARE GENERALLY "YOUNG" - AVERAGE PME MEMBER
FIRM HAS BEEN IN BUSINESS ONLY 20 YEARS - AND MUST
THEREFORE BORROW HEAVILY IN TIME OF "GALLOPING INFLA-
TION".

5. PRICE INFLATION APPROACHES GOF GOAL -

RETAIL PRICES ADVANCED 1.1 PERCENT FROM AUGUST
TO SEPTEMBER, ONLY SLIGHTLY ABOVE GOF GOAL OF 1 PERCENT
MONTHLY RATE BY DECEMBER. SEPTEMBER INCREASE LED BY
PRICES FOR SERVICES (UP 1.3 PERCENT) AND MANUFACTURES
(UP 1.2 PERCENT); FOOD PRICES ROSE ONLY 0.6 PERCENT.
INSEE CONSUMER PRICE INDEX FOR SEPTEMBER WAS 140.1
(1970100), THUS BRINGING PRICE INFLATION OVER FIRST
NINE MONTHS OF YEAR TO 15 PERCENT ANNUAL RATE (DOWN
FROM 17 PERCENT CALCULATED IN JULY AND 16 PERCENT
IN AUGUST).

WITH ADDITION OF SEPTEMBER FIGURES, PRICE INFLA-
TION OVER THIRD QUARTER AMOUNTED TO 3.2 PERCENT,
COMPARED TO 4.0 PERCENT IN SECOND QUARTER AND 4.2
PERCENT IN FIRST.

6. CITROEN REPORTS FIRST HALF LOSSES -

SLUMP IN FRENCH AUTO INDUSTRY (SEE REFTTEL) GIVEN
FURTHER CONFIRMATION AS CITROEN REPORTED FIRST-HALF

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LOSSES OF 395 MILLION FRANCS (AFTER DEPRECIATION WRITE-OFFS); LOSSES OF 800 MILLION FRANCS FOR ENTIRE BUSINESS YEAR CONSIDERED LIKELY. ACCORDING TO CITROEN SPOKESMEN, HOWEVER, FIRST-HALF RESULTS (CONSIDERING HEAVY INVESTMENTS, SAGGING SALES AND HIGHER COSTS) "NOT A CATASTROPHE".

AS REPORTED PARIS A-360, CITROEN HAS BEEN IN FINANCIAL TROUBLE FOR SOME TIME. FRANCE'S THIRD-LARGEST AUTO MANUFACTURER, IT WAS HIT BY PETROLEUM CRISIS AT A TIME WHEN ITS FINANCES ALREADY STRAINED UNDER HEAVY DEBT LOAD. IN JUNE IT WAS MERGED WITH SECOND-LARGEST PEUGEOT.

7. PARLIAMENTARY COMMITTEE EVALUATES PAYMENTS DRAIN - UNCLASSIFIED

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ACCORDING TO NATIONAL ASSEMBLY COMMITTEE REPORT ON 1975 BUDGET, FOREIGN BORROWING SINCE FIRST OF YEAR BY FRENCH ECONOMIC AUTHORITIES WOULD CORRESPOND TO ANNUAL BALANCE-OF-PAYMENTS CHARGES OF ABOUT \$500 MILLION THROUGH 1978. PRINCIPAL COMPONENTS REPORTED TO BE \$1.5 BILLION TREASURY BORROWING AND ROUGHLY \$3.5 BILLION IN LOANS CONTRACTED IN FOREIGN CURRENCIES BY FRENCH PUBLIC AND PRIVATE AGENCIES. GREATER PART OF THESE

LOANS CONCLUDED ON BASE WHICH MAY BE REVISED RELATIVE
TO INTERBANK RATE ON LONDON MONETARY MARKET. IT
PRESENTLY UNKNOWN AT WHAT DATE DRAWINGS WILL BE
EFFECTED OR IN WHAT PROPORTIONS ANTICIPATED REPAY-
MENT POSSIBILITIES WILL BE USED.

8. OTHER REPORTS SUBMITTED DURING THE PERIOD -

TELEGRAMS

PARIS 25778 FRENCH "ANTI-INFLATIONARY
LEVY OCTOBER 31,1974

AIRGRAMS

A-544 FRENCH FOREIGN EXCHANGE
HOLDINGS OCTOBER 25,1974

A-550 TRADE WITH COMMUNIST
AREAS (CERP 1211) OCTOBER 30,1974
STONE

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